Louisiana Legislative Fiscal Office Fiscal Notes

# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Fiscal Note On: **HB 514** HLS 21RS 586
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **W/ SEN FLOOR AMD**
Proposed Amd.:
Sub. Bill For.:

**Date:** June 2, 2021 10:48 AM
**Author:** MAGEE
**Dept./Agy.:** Revenue
**Subject:** Sales Tax: Bus Utilities, TTF Ded, Marijuana, 0.45% Levy
**Analyst:** Benjamin Vincent

TAX/SALES & USE REF DECREASE GF RV See Note 

Levies a state tax on raw or crude marijuana recommended for therapeutic use and provides for the disposition of the collections of the tax

Proposed law extends the effectiveness of the temporary 0.45% levy in R.S. 47:321.1. Proposed law increases the partial exemption on its definition of manufacturing utilities, provides an annually-increasing partial exclusion to the remaining tax on those utilities, and dedicates the avails of the remaining tax on manufacturing utilities to the Construction Subfund (CSF). Proposed law phases in a dedication of the 0.45% levy to the CSF, beginning at 33% of the avails of the levy in FY23. Proposed law additionally specifies allowable expenditures of CSF monies.
Proposed law additionally removes the state sales tax exclusion on sales of raw or crude marijuana recommended for therapeutic use, and dedicates 50% of the avails to the CSF, 25% to the Louisiana Early Childhood Education Fund, and 25% to the Louisiana Public Defender Board.
Proposed law is effective contingent upon the enactment and effectiveness of House Bill 391 of the 2021 Regular Session, which legalizes the sale of marijuana recommended for therapeutic use, and has an effective date of January 1, 2022.

| **EXPENDITURES** | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 5 -YEAR TOTAL |
|---|---|---|---|---|---|---|
| State Gen. Fd. | $257,000 | $26,000 | $26,000 | $26,000 | $26,000 | **$361,000** |
| Agy. Self-Gen. | $0 | $0 | $0 | $0 | $0 | **$0** |
| Ded./Other | $0 | $0 | $0 | $0 | $0 | **$0** |
| Federal Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| Local Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| **Annual Total** | **$257,000** | **$26,000** | **$26,000** | **$26,000** | **$26,000** | **$361,000** |

| **REVENUES** | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 5 -YEAR TOTAL |
|---|---|---|---|---|---|---|
| State Gen. Fd. | ($38,000,000) | ($203,000,000) | ($329,000,000) | ($460,000,000) | $0 | **($1,030,000,000)** |
| Agy. Self-Gen. | $0 | $0 | $0 | $0 | $0 | **$0** |
| Ded./Other | $19,000,000 | $161,000,000 | $283,000,000 | $410,000,000 | $406,000,000 | **$1,279,000,000** |
| Federal Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| Local Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| **Annual Total** | **($19,000,000)** | **($42,000,000)** | **($46,000,000)** | **($50,000,000)** | **$406,000,000** | **$249,000,000** |

**EXPENDITURE EXPLANATION**

LDR anticipates a necessary expenditure of approximately $103,000 of staff time for tax form modification, system programming, and system development due to proposed law's marijuana provisions. An additional upfront cost of $128,000 is anticipated to administer new sales tax accounting of impacted business utilities, phasing in a partial exemption and new dedication, taxpayer education, and rule promulgation. The annual phasing-in of the exemption and dedication is anticipated to require additional expenditures amounting to $26,000 of staff time annually until FY32.

**REVENUE EXPLANATION**

LFO notes that the effective dates intended for some provisions of proposed law are inconsistent and likely impracticable, given an overall effective date of January 1, 2022. This analysis assumes effectiveness as of that date for all provisions. Proposed law:
- Adds entities reporting in NAICS 22 to the definition of manufacturing utilities
- Reduces the effective sales tax rate on manufacturing utilities from 2% to 1% in FY22
- Beginning in FY23, phases down the remaining 1% levy on manufacturing utilities by 0.1% per year
- Retains the 2% rate on other types of business utilities in current law, which returns to 0% in FY26
- Makes permanent the temporary levy of 0.45% in R.S. 47:321.1, which would otherwise expire at the end of FY25
- Dedicates the avails of taxes on manufacturing utilities to the CSF
- Beginning in FY23, phases in a dedication of the 0.45% to the CSF. Dedicates 33% of the levy in FY23, 66% in FY24, and 100% in FY25 and in all years following

The provision reducing the effective tax rate on manufacturing utilities from 2% to 1% and dedicating the avails of the 1%, in isolation, will result in a state **net** revenue reduction of approximately $38 million for every typical full year. For such a full year, the net reduction of $38 million would consist of a general fund loss of $76 million, partially offset by a dedicated funds gain of $38 million. The assumed partial-year effectiveness for FY22 is reflected in the table above as a general fund reduction of $38 million, and a dedicated revenue increase of $19 million. This is the only provision affecting FY22 revenues.

The provision that gradually reduces the remaining 1% levy on manufacturing utilities, in isolation, will reduce general fund revenue by an additional $3.8 million in FY23, $7.6 million in FY24, $11.4 million in FY25, and so on until FY32, at which time the the effective tax rate on these purchases will be zero, and the annual impact of the provision will be $38 million.

The provisions extending and dedicating the 0.45% levy, in isolation, would reduce general fund revenues by approximately $127 million in FY23, $253 million in FY24, and $384 million in FY25 and in all years following. These general fund revenue reductions would be matched by increases in revenues dedicated to the CSF.

Information on the impacts of the therapeutic marijuana provisions follows on Page 2.

| Senate | Dual Referral Rules | House |
|---|---|---|
| [x] | 13.5.1 >= $100,000 Annual Fiscal Cost {S & H} | [x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S} |
| [x] | 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H} | [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

Gregory V. Albrecht
Chief Economist

**CONTINUED EXPLANATION from page one:**



**Therapeutic Marijuana Provisions:**

Additionally, proposed law applies the full state sales tax rate of 4.45% to sales of raw or crude marijuana recommended for therapeutic use. These provisions, in isolation, would increase dedicated revenues to the CSF, Early Childhood Education Fund, and Public Defender Fund by indeterminable amounts.

For informational purposes, based on sales in states that have recently allowed these purchases and on industry market research estimates for the state, an estimate of approximately $38 million in annual sales of raw or crude marijuana is anticipated initially, ramping up to $276 million in sales over time. This estimate accounts for the state's limited network of eligible Louisiana retailers imposed by current law, which limits the maximum number of licensed dispensaries, and results in each existing dispensary covering between four and twelve parishes. Industry research estimates that this ramp-up would be achieved by FY26. In the event that this level of sales materialized, it would imply a dedicated revenue impact of approximately $1.7 million initially, and $12 million in FY26. (Note: these speculative figures for sales of therapeutic marijuana are not included in the net figures in the revenue table on Page 1)